

TECHNO FUNDA REPORT ON

COTTON

(October)

4th September, 2019



Moneywise. Be wise.

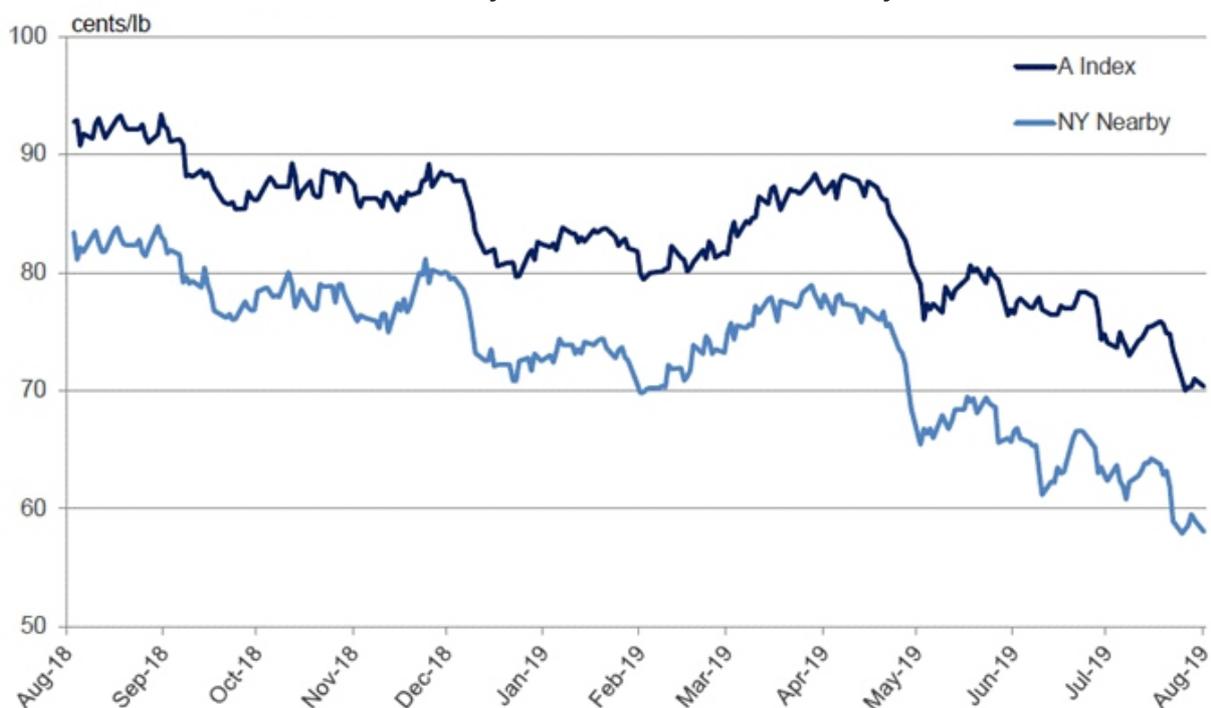
History

Last month, cotton benchmark prices decreased over the past month. The NY December contract set new life-of-contract lows in dropping from 63 to 58 cents/lb between mid-July and early August. NY futures had not traded below 60 cents/lb since 2016. The CotlookA Index fell from 74 to 70 cents/lb from mid-July to early August.

In international terms, the China Cotton Index (CC Index 3128B) decreased from 94 to 88 cents/lb between mid-July and early August. In domestic terms, values dropped from 14,200 to 13,600 RMB/ton. Over the same period, the RMB declined 2.7% against the USD (from 6.87 to 7.05 RMB/USD).

Yearly price movement of Cotton (MCX) & Cotton (ICE)

One Year of Daily A Index and NY Nearby Prices



Source: Cotton Inc.

Indian cotton prices (Shankar-6 quality) fell from 82 to 75 cents/lb in international terms and from 43,900 to 41,700 INR/candy domestically. Over the same period, the INR declined 3.4% against the USD (from 68.5 to 70.8 INR/USD).

One Year of Daily Indian Spot Prices (Shankar-6 Variety)



Source: Cotton Inc.

Domestic market supply side fundamental

- USDA Foreign Agricultural Service estimates marketing year (MY) 2019/20 India's cotton production at 29 million 480 lb. bales (37.1 million 170-kilogram bales/6.3 MMT) with a planting area of 12.7 million hectares.
- According to the weekly planting progress report published by the Ministry of Agriculture and Farmers Welfare (MOAFW), cotton planted area across the country has reached 12.49 mln ha so far vs 11.76 mln ha year ago.
- It is estimated that slightly lower yields at 497 kilograms per hectare.
- Planting in Central India (Gujarat, Maharashtra and Madhya Pradesh) is three percent higher than last year, while Northern India (Punjab, Haryana and Rajasthan) saw a 19% increase in cotton area. Various initiatives of the state governments of Punjab and Haryana to limit planting of paddy rice due to its elevated water requirement has led to increased cotton area.
- Planting is underway in Southern India (Andhra Pradesh, Telangana, Karnataka and Tamil Nadu) where sowing progress is five percent higher than last year and is expected to remain high due to high cotton prices.
- Farmer planting decisions are primarily driven by their expected price realization. As such, high farm-gate cotton prices, and higher minimum support prices will encourage higher cotton crop area.
- On the demand side, MY 2019/20 mill consumption remains weak as mills accumulate greater cotton yarn stocks due to poor demand. Export prospects have diminished while imports are expected to remain stable as they are price competitive against domestic supplies.
- Shipments from the United States and Egypt continue to drive up bulk import volumes.
- The beginning stock for MY 2019/20 is estimated at 9.7 million 480 lb. bales (12.5 million 170 kg bales/2.1 MMT). This stock level adjusted for the Indian marketing year (Oct/Sep) is roughly equivalent to 5.9 million 480 lb. bales (7.6 million 170 kg bales/1 MMT). These stock levels also include the stocks held by government agencies such as the Cotton Corporation of India (CCI).

Domestic market demand side fundamentals

- USDA Foreign Agricultural Service estimates MY 2019/20 cotton consumption at 24.6 million 480-lb. bales (31.5 million 170-kilogram bales/ 5.4 MMT).
- The slowdown in the spinning sector is evident from a large number of mills curtailing their operations and accumulating more yarn stocks.
- The fall in yarn prices due to weak domestic demand, lackluster export market coupled with high alternative fiber prices is negatively affecting the profitability of many small to medium-sized mills.
- Average domestic wholesale cotton prices have fallen marginally by less than one percent from last month but remain five percent higher than last year.
- MY 2019/20 exports at 4.2 million 480-lb bales (5.4 million 170-kilogram bales/914,000 MT) same as the official USDA estimate.
- Indian cotton prices remain almost 5-6 cents higher than Cotlook A-Index. The differential between domestic and international prices has narrowed in the past one month as global demand has also weakened due to slowdown in major cotton consumption countries.
- The Indian currency has also depreciated by four percent since beginning of August improving export prospects, nonetheless weakened demand is limiting this export opportunity.
- Domestic yarn prices have also fallen by six percent from June onwards highlighting the weakness in demand.

Domestic market inventories

Cotton India as of August 2019							
Attribute	19/20 Aug'19	Change	19/20 Jul'19	18/19	17/18	16/17	15/16
Area Harvested (1000 HA)	12,600	-	12,600	12,600	12,600	10,850	12,300
Beginning Stocks (1000 480 lb. Bales)	9,125	+700(+8.31%)	8,425	9,225	7,880	7,044	10,586
Production (1000 480 lb. Bales)	29,000	-	29,000	26,500	29,000	27,000	25,900
Imports (1000 480 lb. Bales)	1,400	-	1,400	1,500	1,677	2,736	1,072
Total Supply (1000 480 lb. Bales)	39,525	+700(+1.8%)	38,825	37,225	38,557	36,780	37,558
Exports (1000 480 lb. Bales)	4,200	-200(-4.55%)	4,400	3,600	5,182	4,550	5,764
Use (1000 480 lb. Bales)	25,000	-500(-1.96%)	25,500	24,500	24,150	24,350	24,750
Loss (1000 480 lb. Bales)	0	-	0	0	0	0	0
Total Dom. Cons. (1000 480 lb. Bales)	25,000	-500(-1.96%)	25,500	24,500	24,150	24,350	24,750
Ending Stocks (1000 480 lb. Bales)	10,325	+1400(+15.69%)	8,925	9,125	9,225	7,880	7,044
Total Distribution (1000 480 lb. Bales)	39,525	+700(+1.8%)	38,825	37,225	38,557	36,780	37,558
Stock to Use % (PERCENT)	35.36	+6(+18.46%)	29.85	32.47	31.45	27.27	23.08
Yield (KG/HA)	501	-	501	458	501	542	458

Source: USDA

International market fundamentals

- Trade barriers between U.S & China weighed 2018/19 exports down from the previous year.
- Shipments to eight of the top ten markets fell with China witnessing the largest decline. Despite higher global imports by China, retaliatory tariffs on U.S. cotton allowed other major exporters to supplant U.S. market share.
- Despite lower exports to most major markets, the United State's top market, Vietnam, continued another positive year of growth.
- Nonetheless, exports fell in all other regions with East Asia (China) accounting for the most significant downturn.
- U.S. exports are forecast to expand in 2019/20 with a rebounding crop that's estimated to grow by more than a quarter. With larger exports projected, the United States is expected to help meet greater global demand in 2019/20 with Vietnam imports

(the top U.S. market) expected to break the previous year's record.

- On the supply side, Production in the United States is raised this month to the largest since 2005/06 at 22.5 million bales, compared with July's projection of 22.0 million bales and last season's final estimate of 18.4 million bales.
- The U.S. cotton yield is forecast at 855 pounds per harvested acre this season, 9 pounds below 2018 but above the 5-year average of 848 pounds.
- With U.S. cotton production expected to surpass demand for the third consecutive season in 2019/20, ending stocks are forecast to increase further to 7.2 million bales, compared with 2018/19's estimate of 5.25 million bales and 2017/18's estimate of 4.3 million bales. As a result, this season's stocks-to-use ratio is expected to rise to 35 percent, the highest since 2008/09. Consequently, the 2019/20 upland farm price is forecast lower at 60 cents per pound for 2019/20, compared with 2018/19's estimate of 70 cents per pound

Weekly crop progress of U.S Cotton

Based on the September 3 Crop Progress report from USDA, less than 50% of bolls in those states are currently open, with the storm projected to miss each state's primary cotton production areas. Nationally, 36% of bolls are reported open – up 8% in the past week and 9% of the 5-year average for this date.

Boll set is all but complete, with 97% reported across the Cotton Belt. In all, 14 of the top 15 cotton-producing states are at or above their 5-year average.

Cotton condition continues to show week-to-week shifts in ratings, moving to the positive side this past week. Cotton is rated good/excellent in 48% of the crop (up 5% in the past week), likely shifting percentages from the fair category, which now sits at 37%. Cotton rated poor/very poor also showed 2% improvement on the week, moving to 15% nationally.

Cotton Setting Bolls – Selected States

[These 15 States planted 99% of the 2018 cotton acreage]

State	Week ending			2014-2018 Average
	September 1, 2018	August 25, 2019	September 1, 2019	
	(percent)	(percent)	(percent)	(percent)
Alabama	97	97	99	99
Arizona	100	100	100	99
Arkansas	100	100	100	100
California	67	92	95	89
Georgia	97	97	100	99
Kansas	94	69	81	78
Louisiana	100	100	100	100
Mississippi	99	92	95	98
Missouri	100	96	100	95
North Carolina	94	96	98	97
Oklahoma	90	96	97	90
South Carolina	94	99	100	97
Tennessee	100	97	100	98
Texas	95	85	96	94
Virginia	98	90	95	98
15 States	95	90	97	96

Cotton Bolls Opening – Selected States

[These 15 States planted 99% of the 2018 cotton acreage]

State	Week ending			2014-2018 Average
	September 1, 2018	August 25, 2019	September 1, 2019	
	(percent)	(percent)	(percent)	(percent)
Alabama	39	29	48	32
Arizona	62	50	61	60
Arkansas	50	18	42	32
California	-	7	9	16
Georgia	24	30	42	34
Kansas	16	2	4	13
Louisiana	77	33	53	69
Mississippi	52	15	29	39
Missouri	51	13	20	23
North Carolina	22	15	28	24
Oklahoma	17	10	15	14
South Carolina	15	24	40	25
Tennessee	48	8	13	26
Texas	23	34	38	24
Virginia	24	11	23	19
15 States	28	28	36	27

Source: USDA

Foresight

Going ahead & tracking the fundamentals, it is being forecasted that we may see a weakness in cotton futures (October) 19000-18680-18240 & facing resistance near 19985 levels. The reason being that fresh arrivals are about to hit the market & demand side is sluggish due to poor performance of exports. Also, on the international market, cotton is facing pressure due to lack of clarity in the US-China trade negotiations, sending the natural fiber down for a fifth straight month. Prices had dropped to a 3-1/2 year low earlier this week and have declined nearly 20 per cent so far this year as the US-China trade war hurts demand. Recent rains in Texas, a major crop-producing state, are giving a boost to crop conditions previously impacted by extreme heat.

Back at home, historically, CCI market arrivals from August to September averages around 406,000 480 lb. bales (520,000 170-kilogram bales) based on a ten-year average, and around 460,000 480 lb. bales (589,000 170-kilogram bales) based on the five-year average.

Exports of cotton textiles continued their downward spiral declining by 24.5 per cent during April-July 2019. The provisional data for the first three weeks of August 2019 also shows that the 25 per cent decline in exports is continuing month on month basis. A sharp and precipitous decline especially of cotton yarn during the last four months by about 35 per cent has led to a crisis situation in the spinning industry. In fact, the monthly exports of cotton yarn are at a 5 year low of 59-60 million kgs. Exports to major markets like China have declined by 50 per cent and Bangladesh by 38 per cent and Korea by 45 per cent.

Many of the competing countries are gaining access in various export markets like China, South Korea, Turkey mainly on account of the preferential access given to them by the importing countries leading to further erosion of India's market share. While Vietnam has increased its exports of cotton yarn to China by 17 per cent during the last four months, India's share has declined by 16 per cent during the same period.

In view of the sharp decline in exports, the sector is in a very critical situation as many production units are shutting down. Usually the cash rich mills store cotton for their operations that run throughout the year. However, if the current situation persists, they may be compelled to run on hand-to-mouth basis without building the inventory.

The textile industry is bearing the brunt of US-China trade war. The spinning mills in Malwa region are having a tough time as they are not finding any takers for yarn, primarily because countries like Bangladesh are offering yarn at a lower price.

Hence, taking into account all the above negative factors, a bearish trend may prevail over cotton prices in domestics as well as in the international market.

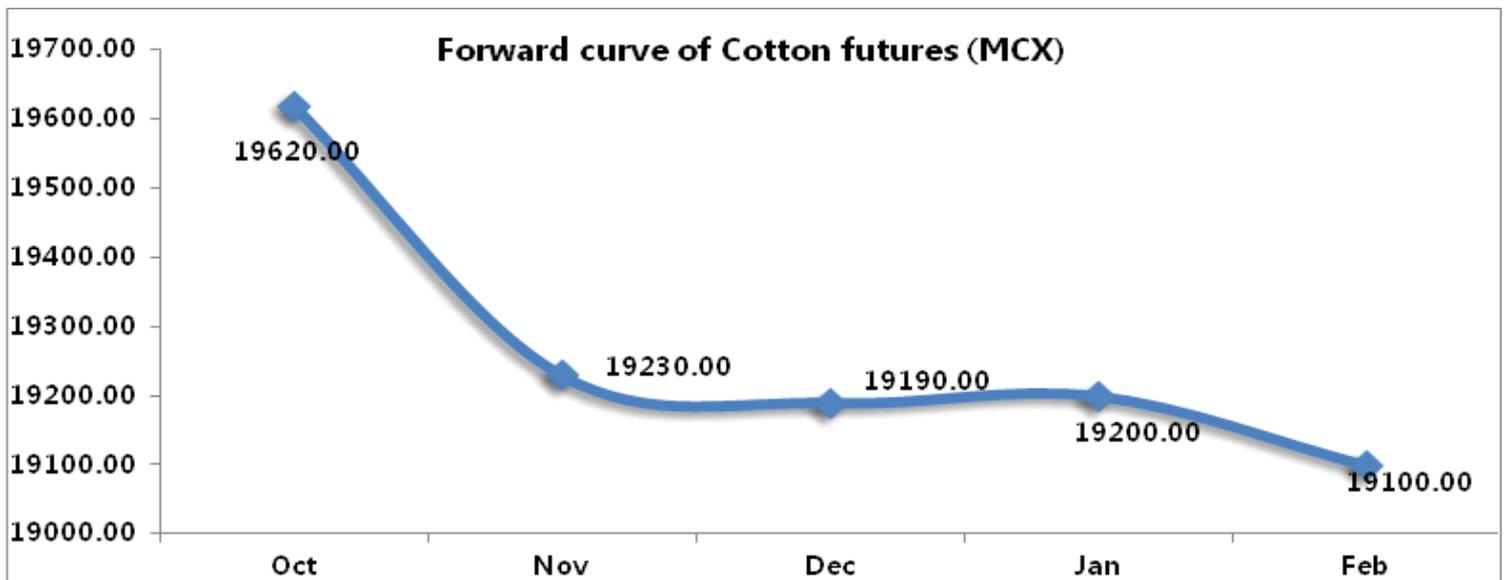
Spot market update - Arrivals

State wise Wholesale Prices Monthly Analysis for Cotton August, 2019					
State	Prices August, 2019	Prices July, 2019	Prices August, 2018	% Change(Over Previous Month)	% Change(Over Previous Year)
Andhra Pradesh	6003.66	6010.16	6106.37	-0.11	-1.68
Gujarat	5877.8	5895.9	5735.53	-0.31	2.48
Haryana	5779.53	6092.59	5505.57	-5.14	4.98
Karnataka	5465.27	5860.59	5428.45	-6.75	0.68
Madhya Pradesh	4631.1	5577.69	5022.01	-16.97	-7.78
Maharashtra	5850	5850	4125	0	41.82
Pondicherry	4400	4793.21	-	-8.2	-
Punjab	5590	5026.4	5341	11.21	4.66
Rajasthan	6243.07	6368.4	5794.88	-1.97	7.73
Tamil Nadu	5612.21	5818.59	5729.78	-3.55	-2.05
Telangana	5865.45	6051.23	5558.48	-3.07	5.52
Uttar Pradesh	5300	-	5275.95	-	0.46
Average	5551.51	5758.61	5420.27		

Source: AGMARK

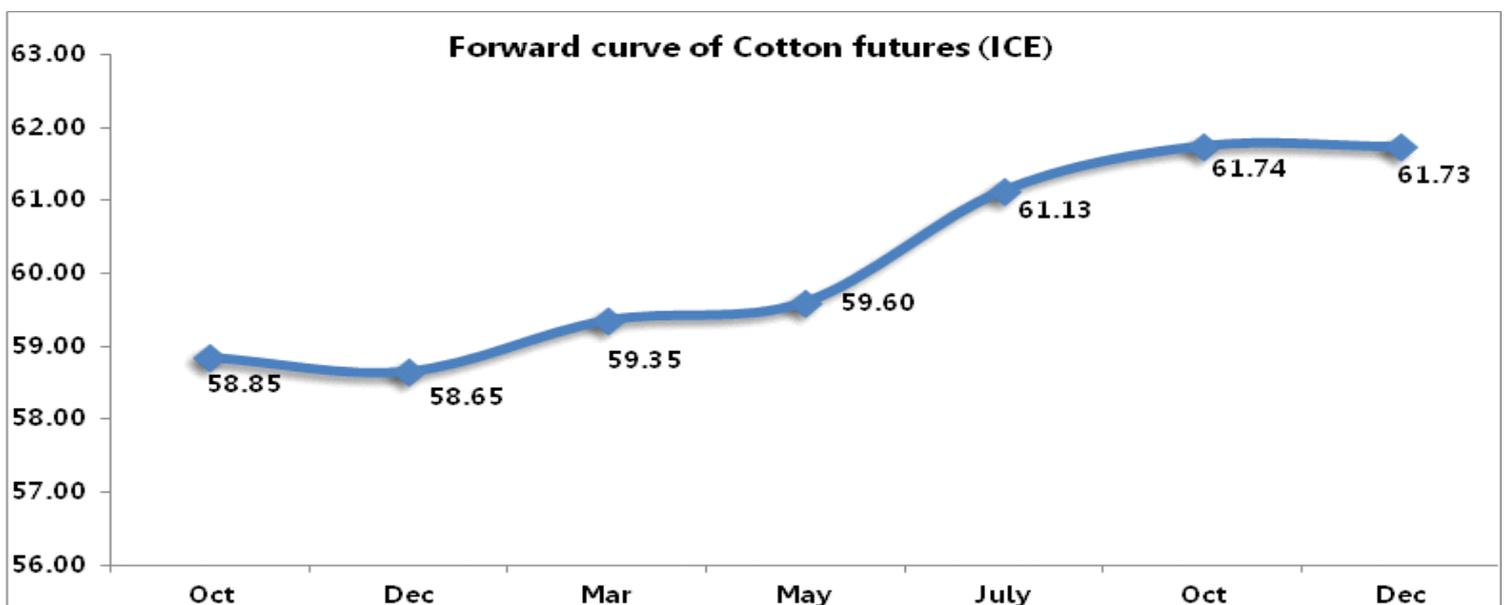
Spot Cotton Prices (6th August, 2019)	
Indian Cotton Standards	
GUJ ICS-105 (29mm)	41100 per Candy (355.62 Kgs)
P/H/R ICS-202 (26mm)	41400 per Candy (355.62 Kgs)
M/M/A ICS-105 (28mm)	42900 per Candy (355.62 Kgs)
International Market	
ICE Prices (December'19)	58.72 cents per pound
Cotlook 'A' Index	70.00 cents per pound

Source: CAI



Closing as on: 30th August 2019

Source: MCX



Closing as on: 30th August 2019

Source: Bar Chart

Technical analysis & recommendation



Source: SMC Research

MCX Cotton has been in short term downtrend with the formation of lower highs and lower lows. Earlier the lower low was at 19520 the key support for bulls, whereas lower high 22540 act as resistance in the short term. Cotton prices break and sustain well below the key support. As of now, prices are falling below the retracement level 78.6% of the previous fall from 22540 to 19520. Now bear is in full power and target 18600-18200. Selling on rising advised in MCX Cotton near 19700 with the target of 19200-18600.

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